ACTUARIAL NOTE
REGULAR SESSION 2009

Senate Bill 57: SLS 09RS-178
Original / No Amendments

Author: Senator B. Gautreaux
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LA #8.01

State Police Pension and Retirement System

OR 5yr Ttl: The actuarial impact will be a net increase in cost. See actuarial analysis section below,

Preparation of this Note was directed by the Actuarial Services Division of this office.

Steve J. Theriot, CPA

Legislative Auditor

Bill Header: Provides for a Back-Deferred Retirement Option Program for the State Police Pension and Retirement System. (7/1/09)

Estimated Fiscal Impact:

EXPENDITURES:	2009-10	2010-11	2011-12	2012-13	2013-14	5 Year Total
State General fund	0	0	0	0	0	0
Agy Self Generated	0	0	0	0	0	0
Stat Deds/Other	0	0	0	0	0	0
Federal Funds	0	0	0	0	0	0
Local Funds	0	0	0	0	0	0
Annual Total	See below	See below	See below	See below	See below	See below

REVENUES	2009-10	2010-11	2011-12	2012-13	2013-14	5 Year Total
State General fund	0	0	0	0	0	0
Agy Self Generated	0	0	0	0	0	0
Stat Deds/Other	0	0	0	0	0	0
Federal Funds	0	0	0	0	0	0
Local Funds	0	0	0	0	0	0
Annual Total	0	0	0	0	0	0

Purpose:

Replaces the current DROP benefit option with a Back-DROP option for members of the State Police Pension and Retirement Fund who have not already elected to participate in DROP.

Increases the employee contribution requirement from 8.0% of pay to 8.5% to help offset the cost associated with the benefit change from DROP to Back-DROP.

Bill Provisions:

Relative to the State Police Pension and Retirement Fund,

- Increases the employee contribution rate from 8.0% of pay to 8.5%,
- Repeals the current DROP benefit option, and
- Provides for a Back-DROP benefit option.

Existing Provisions:

Active participants in the State Police Pension and Retirement System currently contribute 8.0% of their salary to the System.

The System currently provides for a traditional DROP program. Employees may select this option upon first becoming eligible to retire. If the employee delays his entry into the DROP program after first becoming eligible, the period of participation in DROP is reduced by the period of the delay. The maximum DROP participation is three years.

Proposed Provisions

In the future, active participants will contribute 8.5% of their salary to the System.

Current DROP provisions are repealed for all System members who have not elected to participate in DROP.

A Back-DROP benefit option is provided that will allow a System member at the time of retirement to look back to see if participation in the DROP program would have been beneficial to the retiree's individual circumstances and if so to "retroactively" select DROP.

Actuarial Impact:

Actuarial Cost Impact:

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Enactment of Senate Bill 57 will have the following effect on plan costs.

1. The unfunded accrued liability for the plan will increase.

2. Annual contribution requirements necessary to amortize the increase in unfunded accrued liability will increase for a period of 10 years.

3. Annual normal costs (i.e., the cost of current year benefit accruals) will increase.

4. The increases in cost cannot be reliably determined.

5. Employee contribution requirements will increase 0.5%. As a result, annual employee contributions will increase approximately $275,000. It is unlikely that the additional revenue for the System associated with this increase will offset the additional costs associated with the benefit changes.

<u>Potential Actuarial Liability</u>

Senate Bill 57 will potentially result in an increase in the System's unfunded accrued liability. The amount of the increase cannot be readily determined. See actuarial analysis.

<u>Actuarial Analysis</u>:

The "true" actuarial cost of Senate Bill 57 can be reliably measured only if assumptions are made about how the legislation will affect human behavior in the future. Actuarial costs were determined under two different assumption sets outlined below:

Question	**Assumption Set A**	**Assumption Set B**
How will employees decide whether or not to elect the Back-DROP option?	Future retirees will always select between regular retirement benefit or the Back-DROP option based on the benefit that has the larger value.	Decision making criteria used by individual employees at retirement vary widely from employee to employee and therefore cannot be modeled. Nevertheless, it is perhaps reasonable to assume that 50% of all future retirees will elect the Back-DROP option.
What effect will the availability of the Back-DROP option have on the incidence of retirement?	No effect.	Will result in employees retiring earlier than they would have otherwise.

Assumption Set A can be viewed as a "maximum cost" approach to measuring the cost of senate Bill 57. Assumption Set B can be viewed as "educated guess" approach.

Actuarial costs for both assumption sets are shown below:

Cost Item	**Assumption Set A**		**Assumption Set B**	
Increase in the unfunded accrued liability	$ 13.362,000	N/A	$ 1,515,000	N/A
Increase in employer contributions attributable to 10 year amortization of the change in unfunded accrued liability.	$ 1,878,000	3.41%	$ 213,000	0.39%
Increase in the normal cost attributable to benefit changes.	$ 890,000	1.62%	$ 70,000	0.13%
Increase / (Decrease) in normal cost due to increase in employee contribution requirements	$ (275,000)	(0.50)%	$ (275,000)	(0.50)%
Increase in contributions for the next 10 years.	$ 2,493,000	4.53%	$ 8,000	0.02%
Increase / (Decrease) in contributions thereafter.	$ 890,000	1.62%	$ (205,000)	(0.37)%

Percentages represent changes in employer contribution rates. The total annual payroll for member of the System is assumed to be $55 million.

<u>Fiscal Impact:</u>

Since it is not known at this time how many employees will select the Back-DROP program in the future or what the demographic make up of those employees will be, a "true" cost of the bill cannot be given. Nevertheless, the "true" cost should range from negligible to the amount shown under Assumption Set A.

<u>Dual Referral Rules</u>:

Estimated Fiscal Impact >= $500,000: NO